

DIVISION OF FINANCE

ENTERPRISE ZONES

ANNUAL STATUS REPORT  
CALENDAR YEAR 2010  
Economic Development Article

SECTION 5-709

Submitted by:

Maryland Department of Business and Economic  
Development

December 2011

# MARYLAND ENTERPRISE ZONE PROGRAM

Maryland's Enterprise Zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property-owners located in some of the State's most economically distressed communities. The program was created in 1982 with two zones in two jurisdictions and has grown to include 28 zones. In accordance with Chapter 305, Acts of 2001, the Department of Business and Economic Development (DBED) has reviewed the effectiveness of the State's Enterprise Zone tax credit program and prepared this report. DBED wishes to acknowledge the efforts of the Comptroller of the Treasury, the State Department of Assessment and Taxation, and county and municipal enterprise zone administrators for providing valuable information for this report.

As of December 2011, there are 28 enterprise zones across the State and two focus areas. The enterprise zones are located throughout the State, with ten State-designated zones in Western Maryland, eight on the Eastern Shore, four in Southern and Suburban Maryland, and six in Central Maryland (Table 1).



<b>Table 1: Enterprise Zones</b>		
<b>County</b>	<b>Enterprise Zone</b>	<b>Expires</b>
Allegany	Rt. 220 South-Allegany County	12/14/2019
	Cumberland-Allegany County	6/14/2012
	Frostburg-Allegany County	12/14/2014
Baltimore City	Baltimore City	6/14/2012
Baltimore County	North Point-Baltimore County	12/14/2015
	Southwest Baltimore County	12/14/2013
	Baltimore County Woodlawn	6/16/2021
Cecil	Cecil County	12/14/2013
Dorchester	Cambridge-Dorchester County	6/14/2013
	Hurlock Enterprise Zone	6/14/2020
Garrett	Southern Garrett Industrial Park	12/14/2016
	Northern Garrett Industrial Park	12/14/2018
	Central Garrett Industrial Park	6/14/2013
	Keyser's Ridge Business Park	6/14/2014
Harford	Aberdeen/Havre de Grace	6/14/2016
	Edgewood/Harford County	12/14/2014
Montgomery	Gaithersburg-Montgomery County	6-14-2018
	Takoma Park	6/14/2013
	Wheaton	6/14/2019
Prince George's	Prince Georges County	12/14/2019
Somerset	Crisfield-Somerset County	6/14/2016
	Princess Anne-Somerset County	12/14/2013
Washington	Town of Hancock	12/14/2015
	Hagerstown-Washington County	12/14/2012
	Washington County Airport	6/14/2014
Wicomico	Salisbury-Wicomico County	12/14/2012
	Fruitland-Wicomico County	6/14/2015
Worcester	Berlin-Worcester County	12/14/2016
Expired Zones		
Allegany	Rocky Gap State Park/Allegany County	12/14/2003
Calvert	Calvert Industrial Park	6/14/2003
Montgomery	Silver Spring	12/14/2006
Washington	Washington County Interstate 81 Park	12/14/2001
Worcester	Snow Hill/Worcester County	6/14/2005
St. Mary's	Lexington Park	12/15/2010
Montgomery	Tacoma Park (Focus Area only)	6/14/2008
Worcester	Pocomoke City Enterprise Zone	12/12/2011
Focus Areas		
Baltimore City	Baltimore City	12/14/2014
Prince George's	Prince George's County	12/14/2014

## **Real Property and Income Tax Credit Usage**

The primary benefits to businesses that are located within a Maryland enterprise zone are eligibility for local property tax credits and State income tax credits. The General Assembly requires the DBED and the Comptroller of Maryland to assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted annually and the success of the tax credits in attracting and retaining businesses within enterprise zones.

This report addresses the number and amount of credits granted annually for each credit followed by a discussion of the information provided by county and/ or municipal administrators on how the credits are used to attract and retain businesses.

### ***Property Tax Credits***

Eligible businesses in an enterprise zone may claim a ten-year credit against local real property taxes on a portion of real property improvements. The credit is 80 percent of the assessment increase during the first five years. The credit then decreases 10 percent annually thereafter to 30 percent in the tenth year.

The State Department of Assessments and Taxation (SDAT) reports on the real property investment made in the enterprise zone, the number of businesses receiving property tax credits and the State's one-half reimbursement back to the local jurisdictions for the property taxes abated as a result of the credits. Businesses will receive property tax credits totaling \$35.4 million in FY 2013. The credits are based on real property investments made by those businesses totaling \$2,979 million. This translates to an average capital investment of \$3.4 million per business. The real property investment will cost the State \$17.7 million to reimburse the localities, assuming the State's full obligation is met.

Over the last five years the amount of property taxes granted to businesses has increased 75 percent with the biggest increases between 2009 and 2010 and 2011 and 2012. During the last five years approximately \$1.25 billion was invested in State enterprise zones. This increase in investment has resulted in increased costs to the State and local jurisdictions over the five years. The State's reimbursement increased from \$10.1 million in FY 2009 to \$17.7 million in FY 2013. However, FY 2013 is the first year that the amount of investment and consequently, the amount of the State reimbursement has begun to decline year-over-year. The State reimbursement declined 7.1 percent. This decrease is due both to the number of businesses receiving credits declining, due to reaching the 10-year end of the credit, and to the assessment value of the property being readjusted down.

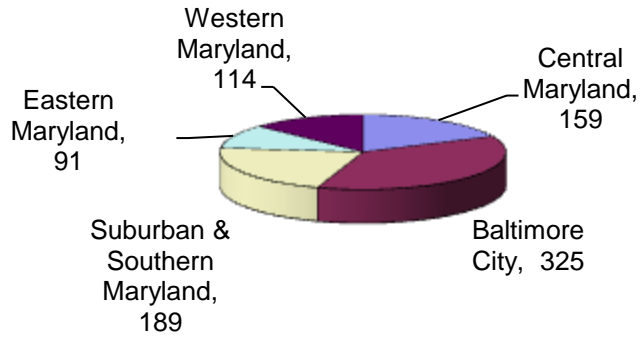
<b>Table 2: Capital Investment Made in Enterprise Zones</b>							
<b>County</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>Percent Change FY 2012-2013</b>	<b>Percent Change FY 2009-2013</b>
Allegany	38,669,575	43,280,775	40,349,670	47,308,475	36,904,646	-28.2%	-4.56%
Baltimore City	403,035,304	788,230,308	897,361,621	1,197,722,040	1,365,790,091	12.3%	238.88%
Baltimore County	113,562,211	107,676,817	187,247,645	274,769,223	188,153,900	-46.0%	65.68%
Calvert	12,953,880	12,553,543	11,552,045	9,608,451	11,238,930	14.5%	-13.24%
Cecil	199,088,464	146,318,141	230,237,945	182,317,823	196,253,652	7.1%	-1.42%
Dorchester	15,073,820	13,354,446	11,015,387	8,784,415	8,101,937	-8.4%	-46.25%
Garrett	21,393,945	17,914,080	21,374,883	20,425,837	21,137,891	3.4%	-1.20%
Harford	297,375,700	272,771,225	378,844,020	347,416,666	320,557,624	-8.4%	7.80%
Montgomery	380,296,256	283,512,125	297,180,514	620,962,725	416,177,863	-49.2%	9.44%
Prince George's	128,255,209	122,565,070	254,280,803	297,733,487	276,722,809	-7.6%	115.76%
St. Mary's	12,119,840	14,345,061	9,908,705	15,165,031	15,557,896	2.5%	28.37%
Somerset	396,713	1,132,078	1,162,944	1,166,810	1,424,839	18.1%	259.16%
Washington	89,622,175	102,207,737	107,180,947	100,000,713	94,339,696	-6.0%	5.26%
Wicomico	11,031,588	17,940,075	24,040,620	25,105,037	26,087,915	3.8%	136.48%
Worcester	2,229,325	2,025,857	2,987,866	2,982,524	1,030,557	-189.4%	-53.77%
<b>Maryland</b>	<b>1,725,104,005</b>	<b>1,945,827,338</b>	<b>2,474,725,615</b>	<b>3,151,469,257</b>	<b>2,979,480,246</b>	<b>-5.8%</b>	<b>72.71%</b>

Source: SDAT and DBED

As Table 2 shows the amount of capital investment increased 72.7 percent over this time period. The counties with the largest amounts of capital investment include Baltimore City, Montgomery, Harford and Prince George's Counties. Those counties that have had the largest increase in investment dollars over the five-year period include Baltimore City, Prince George's and Baltimore Counties.

There is considerable variation by region in the usage of the program. This variance is attributable to three factors: 1) eligibility for the program—poorer areas can more readily meet the eligibility criterion for participation in the program; 2) political choice to participate in the program—the governing bodies of counties and their municipalities have sole authority to request creation of an enterprise zone and sole discretion to establish local standards that govern access by businesses to the program's credits; and 3) private sector business expansion—the enterprise zone has no costs unless businesses make new investments in real property. In FY 2013, 878 businesses across the State received tax credits for investments in enterprise zones. Figure 1 shows the location of these businesses by region.

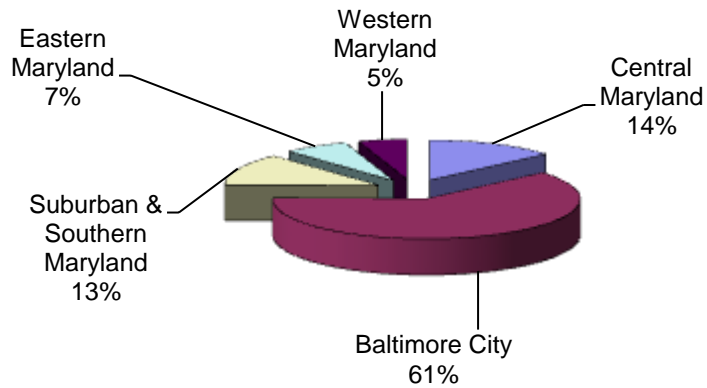
**Figure 1: Businesses Receiving Enterprise Zone Property Tax Credits**



Source: SDAT and DBED

Figure 2 shows the distribution of property tax credit reimbursements by region for the upcoming fiscal year (FY 2013). Sixty-one percent of the reimbursement will go to Baltimore City, or \$10.9 million. This is followed by Central Maryland (\$2.4 million), Suburban and Southern Maryland (\$2.2 million), the Eastern Shore (\$1.2 million) and Western Maryland (\$0.9 million).

**Figure 2: Reimbursement by Region**

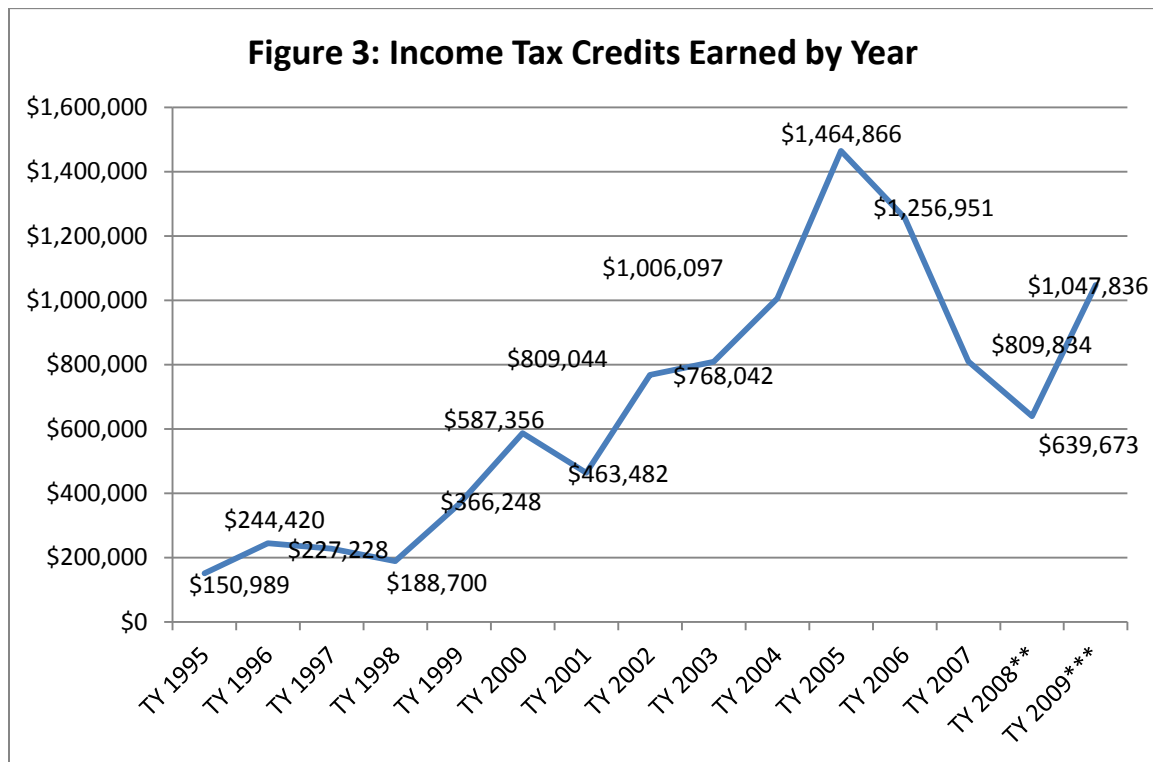


Source: SDAT and DBED

### ***Income Tax Credits***

Eligible businesses in an enterprise zone may claim one-year or three-year credits for wages paid to new employees in new positions. The general credit is a one-time \$1,000 credit per new worker. For economically disadvantaged employees, the credit increases to a total of \$6,000 per worker distributed over three years. Businesses claim the enterprise zone income tax credits on the 500CR form when they submit their business or individual income tax returns to the Comptroller of Maryland. The Comptroller collects and compiles this tax return data.

The Comptroller has provided consistent tax return data on the enterprise zone income tax credits from tax years 1995 to 2009. As Figure 3 shows, the usage of the credits varies from year-to-year and hit a high in TY 2005. Businesses in enterprise zones have earned a total of \$10.0 million in income credits over this time period.



\*\*TY 2008 data is mostly complete, although there are some corporations whose filing date has not yet passed

\*\*\* TY 2009 data is incomplete

Source: Comptroller and DBED

Enterprise zone administrators generally agree that the enterprise zone real property tax credit is the most useful and effective enterprise zone credit available to businesses that locate or expand in an enterprise zone. Counties that have few other

incentives to offer find that the property tax credits are very important. Several counties also noted that the credits are useful in retaining companies in the zone. Companies considering an expansion often decide to expand within the zone rather than move to another location outside of the zone.

The employment tax credits are perceived as secondary in importance in attracting businesses. Most of the businesses are small employers who do not always take advantage of the incentive due to wages paid and the perceived paperwork involved with obtaining the credits. Administrators report a large degree of interest in the credits and find them useful in marketing their areas to prospective businesses, although the importance of the credits in a firm's decision to locate varies from zone-to-zone.

Despite the struggling economy, many enterprise zone administrators reported success in attracting and retaining businesses to their enterprise zone. Examples of this success are discussed below. However, a struggling economy did have an impact on economic growth. The business community on the eastside of Baltimore County was particularly negatively impacted by the struggling steel industry. According to the Baltimore County Enterprise Zone Administrator, many of the businesses in the North Point enterprise zone are dependent on Sparrow's Point. The current owner of Sparrow's Point, Severstal, has effectively shut down the plant, put it on the market and put most of its workers on temporary lay-off. As a result, many of Severstal's customers and suppliers had to lay off workers as well.



### **Excerpts from Administrator Reports: Impact of Property and Income Tax Credits**

*CFBC Properties, LLC constructed a 40,000 square foot building to house an expanded CareFirst workforce. The former Blue Cross Blue Shield building was 20,000 square feet and was limiting growth. This expansion in Cumberland is partially due to Enterprise Zone benefits,*

*The increased employment numbers at HunterDouglas' Cumberland facility has increased the number of children that attend the daycare facility located there. This daycare facility serves all of the companies located in the industrial park and was previously in danger of closing because of low enrollment. Closure of this daycare facility would adversely impact the community.*

#### ***Allegany Co-Cumberland Gateway EZ***

*W.L. Gore & Associates, Cecil County's largest private employer continues to make investments in the County. Gore has, for a number of years, modernized or expanded at least one of its twelve production facilities. The Enterprise Zone qualification encourages them to make those plant, equipment and personnel investments in Maryland.*

#### ***Cecil Co EZ***

*Beitzel Corporation, the sole owner of Pillar Innovations, LLC, purchased the former Stellar Precision building in the Northern Garrett Industrial Park in late 2007. In 2007 and 2008, Pillar expanded the original building to allow for additional manufacturing space, purchased additional acreage from ClosetMaid and constructed an additional building. In 2009, Pillar expanded its administration offices into the Tri-State Medical Building located adjacent to the enterprise zone. In 2010, Beitzel Corporation purchased the "Merkle" building in the Northern Garrett Industrial Park and is currently in the process of expanding its manufacturing space into that building. Current improvements to the "Merkle" building are currently in progress.*

*Pillar is the manufacturer of mine safety chambers, and its business is booming in both the United States and abroad. Pillar has hired 44 additional employees at the NGIP facility in the past year, and there are plans for further expansion and hiring additional employees within the next 12-18 months.*

*Beitzel Corporation's management cited the enterprise zone tax credits, as well as the site's proximity to both Interstate 68 and Beitzel's headquarters on Maryland Route 495 (approximately five miles from the Northern Garrett Industrial Park), as major incentives to locate the business in the Zone. In addition, monies saved via the enterprise zone tax credits have allowed the business to expand its products and innovations, expand into additional foreign markets and expand its facilities locally.*

#### ***Northern Garrett Co EZ***

*In July 2010 Westfield, Inc. and Costco Wholesale Corporation announced plans to open a 148,000 square foot store at Westfield Wheaton Mall, on the site of the former Hecht's department store. Westfield will demolish the existing Hecht's building and construct a 225,000 + square foot addition to the Mall to house Costco and an additional 80,000 square feet of space for national retailers. The project is also anticipated to create 475 new jobs. Westfield, Inc. has been the largest recipient of Enterprise Zone tax credits in the Wheaton Enterprise Zone.*

#### ***Wheaton EZ***

## **Excerpts from Administrator Reports: Impact of Property and Income Tax Credits**

*The ancillary benefits of the enterprise zone (specifically, waiver of the county impact taxes and the WSSC SDC exemption) have had a tremendous impact on developer interest in residential and mixed-use projects in Olde Towne Gaithersburg. A notable milestone was the March 2011 groundbreaking of the Archstone project. Spanning nearly 7 acres, this project will replace a series of dated, single and multi-family structures with 17,030 square feet of street-front retail and 389 upper level luxury rental units. The first apartments are expected to be available within the first quarter of 2012.*

### ***Gaithersburg EZ***

*The construction of a Food Lion has been completed and is now in operation. Sherwin Williams/Rubberset has just recently completed their expansion, which resulted in approximately 130 new jobs.*

### ***Crisfield EZ***

*Coastal Linen, Inc. recently selected a site within Westwood Commerce Park for its new business. The commercial / industrial laundry company plans to create approximately twenty five new jobs and cause the construction of a new 10,000 s.f. building. The company is also investing significant capital for machinery and equipment.*

*Part of the attraction associated with the selection was clearly enterprise zone benefits. Coastal Linen, Inc. is a “start-up” company and is undertaking a significant capital investment. Real property and state income tax credits help offset these capital costs especially during the critical “early years” of the new business and make our area competitive with alternate communities.*

### ***Salisbury-Wicomico Co. EZ***

*This year, the most exciting example of a neighborhood impact has been the MC Dean project at 180 W. Ostend Street. Without the Enterprise Zone tax credits, MC Dean may not have chosen to locate its offices in the formerly dilapidated warehouse-and the vacant warehouse might have still been deteriorating. Because of the Enterprise Zone tax credits, MC Dean will be bringing 100 new jobs to Baltimore City and have beautifully and sustainably restored this warehouse into a Green office space for the firm. What was once an under-utilized building in the Sharp-Leadenhall community is now a vibrant office complex.*

### ***Baltimore City EZ***

*Five hundred jobs were reported as being created by the one project at Water’s Edge in Belcamp. Other businesses previously certified continue to increase employment. We anticipate additional businesses will be attracted to the Enterprise Zones with the expansion of local and new defense contractors resulting from BRAC and other organic growth in Harford County.*

### ***Aberdeen-Havre De Grace EZ***

*Alberee Products, manufacturers of Saver Blade windshield wipers, located to a building at 4665 Hollins Ferry Road. The company was attracted by the availability of enterprise zone benefits and leased the building with an option to purchase. They employ 65 people and expect to hire 50 more. Alberee will be taking advantage of the Enterprise Zone income tax credits initially and the real property tax credits after they acquire the building.*

### ***Baltimore County Southwest EZ***

## Business Activity in the Enterprise Zones

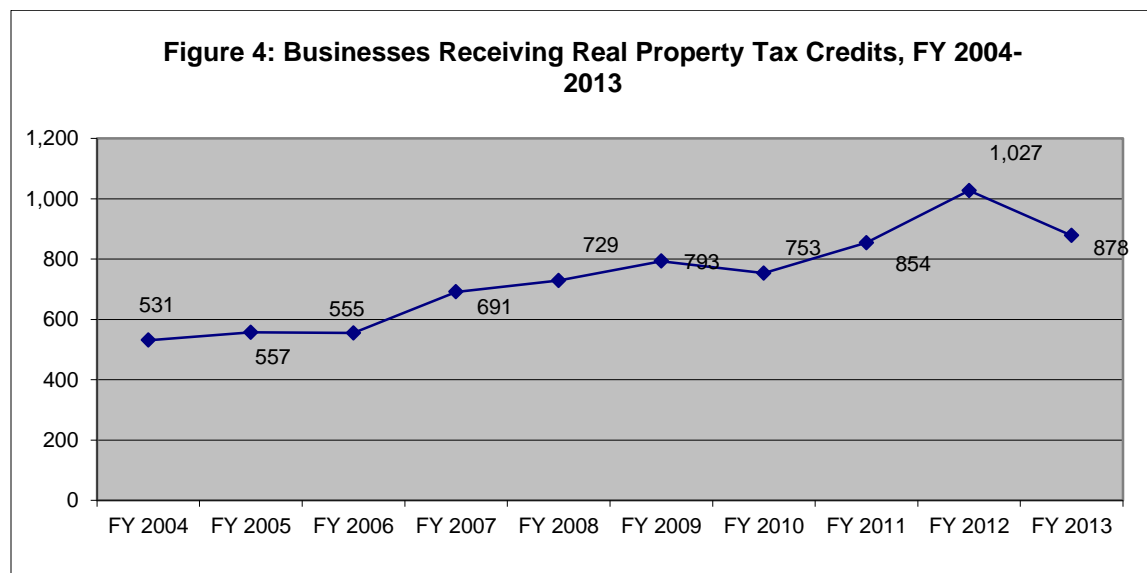
In addition to the information from SDAT and the Comptroller on the number and amount of credits granted annually, the local enterprise zone administrator annual reports provide information on the activity of the businesses in their enterprise zones and on their experience in using the credits. Local zone administrators reported that they certified 110 new businesses for the property and/ or income tax credits in 2010. Based on the administrator reports, net new jobs were 2,112. Businesses also reported on the amount of capital investment in new construction, rehabilitation and equipment. According to the reports, in 2010 businesses invested approximately \$388 million.

It is difficult to compare information on the amount of investment or jobs on a year-to-year basis because the information is, in any year, only reflective of the businesses that provided information to the enterprise zone administrators and does not reflect the activity of all businesses in the all of the zones.

### *Growth In Enterprise Zone Activity*

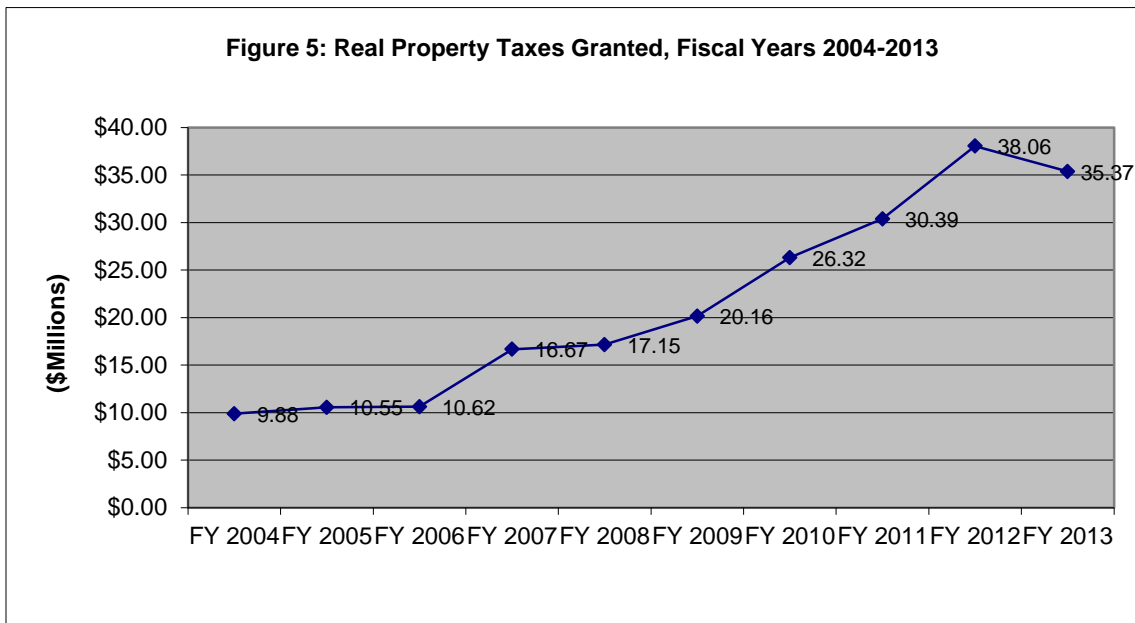
The Enterprise Zone Program has been in existence for over twenty-five years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 878 businesses in FY 2013. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a real property tax credit in 2003, if it remained in operation, was still receiving some credit in 2012. In recent years, the trend has been for jurisdictions to apply to expand their existing zones. Bigger zones also mean more opportunities for businesses to apply for the credits.

The number of businesses receiving real property tax credits has generally increased from year-to-year. For the first time in FY 2013, the number has decreased, falling almost 15 percent. This is largely due to a number of businesses reaching the end of their 10-year credit. Figure 4 illustrates the number of businesses receiving real property credits on an annual basis over the last ten years.



Source: SDAT and DBED

As investment has grown, so has the amount of property tax credits granted to businesses in the zones. Real property taxes abated have grown from approximately \$58,000 in the first year to over \$35 million. Over the last ten years, the amount of property tax credits granted increased from almost \$10 million to \$35 million (Figure 5). Again, the only year the program has shown a decline is in FY 2013. The drop in the amount of property tax credits is due both to the decrease of businesses receiving the credit and the reassessment downward of some properties.



Source: SDAT and DBED

In general, the real property tax credit data provides information on the amount of credits granted and the usage of the credits. The number of businesses participating and the amount of eligible investment has generally grown over the life of the program, but especially in the last several years and significantly in the last three years.